MINUTES
of the
FIFTH MEETING
of the
JOBS COUNCIL

October 23, 2015
Jemez Rooms
Santa Fe Community College
Santa Fe

The fifth meeting of the Jobs Council (council) was called to order by Senator Mary Kay Papen, co-chair, on October 23, 2015 at 9:25 a.m. at Santa Fe Community College (SFCC) in Santa Fe.

Present	**Absent**
Sen. Mary Kay Papen, Co-Chair	Vicente Alvarado
Rep. Don L. Tripp, Co-Chair	Terry Brunner
Dale Armstrong	Sen. Stuart Ingle
Terri L. Cole	Rep. Tim D. Lewis
Jason Espinoza	Rep. Sarah Maestas Barnes
Rep. Roberto "Bobby" J. Gonzales	Sen. George K. Munoz
Rep. W. Ken Martinez	Sen. John C. Ryan
Sherman McCorkle	Sen. Michael S. Sanchez
Sen. Michael Padilla	Sen. Mimi Stewart
Alex O. Romero	Sen. Pat Woods
Eric Witt	

Advisory Members

Rep. David E. Adkins	Rep. Cathrynn N. Brown
Rep. Alonzo Baldonado	Sen. William F. Burt
Sen. Carlos R. Cisneros	Rep. Yvette Herrell
Rep. Kelly K. Fajardo	Rep. Conrad James
Rep. Stephanie Garcia Richard	Rep. Bill McCamley
Rep. Bealquin Bill Gomez	Sen. Steven P. Neville
Rep. Larry A. Larrañaga	Rep. Patricia Roybal Caballero
Sen. Howie C. Morales	Rep. Monica Youngblood
Rep. Debbie A. Rodella	
Sen. William P. Soules	

Staff
Tessa Ryan, Staff Attorney, Legislative Council Service (LCS)
Monica Ewing, Staff Attorney, LCS

Guests

The guest list is in the meeting file.

Handouts

Handouts and other written testimony are in the meeting file.

Friday, October 23

Senator Papen welcomed the council and meeting attendees. Randy Grissom, president, SFCC, also gave a welcome. He said that SFCC focuses on entrepreneurship and invited attendees to tour the school's Health Sciences Center and School of Trades, Technology, Sustainable and Professional Studies, where businesses in the pre-commercialization stage are housed and supported.

Update on the Local Economic Development Act (LEDA) Program and the Job Training Incentive Program (JTIP); Economic Development Department (EDD) Legislative Initiatives

Jon Barela, secretary of economic development, discussed as follows the LEDA program, the JTIP and legislative initiatives that the department plans to pursue.

He said that 30 states use some form of closing fund, and he emphasized the importance of a closing fund for New Mexico. The department's goal is to maintain a $50 million balance for LEDA projects. In 2015, the EDD held town hall meetings in five cities to inform communities about LEDA-related rules and to solicit input on improving the process for funding a project through the LEDA. The department will continue to exercise due diligence and focus on protecting tax dollars used for LEDA projects. In addition to the $6.5 million already awarded for LEDA projects during the current fiscal year, additional money has been earmarked, but not yet awarded, for several projects. The department continuously updates its website with information about LEDA projects.

Secretary Barela recommended that the state maintain $10 million in funding for the JTIP. He reported that the most common feedback he receives from companies interested in expanding in or relocating to New Mexico is that it is difficult to find and hire trained and skilled employees. Accordingly, the JTIP is a useful recruitment tool.

Secretary Barela said that the cultural properties tax credit was introduced to improve the incentive to renovate historic buildings in struggling rural areas. The department would like to expand the credit to allow a $50,000 credit for the restoration of a building in a MainStreet district. He added that if the credit were refundable, it could benefit businesses that restore buildings but do not realize immediate profits from the restoration.

Another EDD proposal would provide for the creation of economic development zones. Secretary Barela said that other states create such zones in areas with high poverty, high unemployment or other economic concerns. The proposal would provide for an up-to-10-year suspension of property tax on properties purchased or improved in an economic development zone. Another proposal would create a rapid work force development program to help companies that expand in or locate to the state. The program would provide money to post-secondary educational institutions for programs to train a work force. The department will request $1.25 million for the program, which would be overseen by the secretaries of higher education, economic development and workforce solutions.

The department also plans to pursue legislation to provide tax relief for small business owners and legislation to appropriate $2 million for a technology research fund.

Alan Martinez, deputy secretary, Veterans' Services Department (VSD), explained another piece of legislation that the VSD and EDD plan to pursue. It would create a tax deduction for uniformed-service retirees. The deduction would encourage trained and motivated military retirees to stay in the state. The average pay for a military retiree is $25,000, and many retirees start businesses to supplement their income. Retaining those retirees in the state could boost the state's economy and job-creation efforts. Deputy Secretary Martinez added that surrounding states offer similar incentives; New Mexico is one of six states that do not.

Regarding the economic development zone proposal, a member asked whether property tax on improved structures could be imposed gradually over 10 years and at reduced rates, rather than imposing the full amount of tax after 10 years. Secretary Barela said that the EDD could consider that approach. Another member asked whether a fiscal impact analysis has been performed to determine how schools and local governments would be affected, and Secretary Barela said that an analysis has not been completed but that such information may be available from other states. In response to a member's question about the rapid work force development proposal, Secretary Barela said that the program's board would consider the pay rate of jobs to be created in deciding how to allocate money for training programs.

Background of the Jobs Council and Overview of the Meeting Agenda

Mark Lautman, lead program consultant to the council, and Dale Hendrickson, program consultant to the council, gave an overview of the council and its work as follows.

The council includes legislators, private-sector representatives and cabinet secretaries because job creation involves collaboration among those leaders. The council's earlier work included a series of town hall meetings to assess job-creation needs statewide. The council aims to develop a framework to identify job-creation priorities and to ascertain the number of economic-base jobs needed, the sectors in which those jobs might be created and factors that could prevent the creation of those jobs.

During the 2015 interim, the council focused on economic theaters that include one or more sectors each. Each theater is a specialized area of economic-base job-creation program activity and responsibility and metrics to measure job creation in the theater. Mr. Hendrickson briefly reviewed the theaters being examined by the council, including: solo work; start-up; visitor-driven jobs; employer recruitment, retention and expansion; film and digital media; federal government; agriculture; energy and extractives; and retirement.

Mr. Hendrickson reported the estimated numbers of jobs that would need to be created in each council of governments region by 2024 to return the state to pre-recession employment levels. He also noted the areas of the state in which the projected number of jobs created will likely fall short of the regions' needs. Mr. Lautman said that the estimates arrived at by the council and the various local governments have been reviewed by economic analysts.

The council and meeting participants discussed whether the state job-creation estimate should be adjusted based on local government revisions and review by economists. Mr. Lautman said that the most significant adjustment attributed to local government revision was in the Mid-Region Council of Government's estimates. A member noted that the Albuquerque-area estimates were adjusted in part because the attrition rate estimates were originally too high. Mr. Lautman said that further major adjustments could occur if the Las Cruces area's estimates are reviewed for accuracy. The council agreed without objection to adjust the estimate from 160,000 to 139,690.

Tourism Department (TD) and Job Creation

Jim Orr, chief information officer, TD, spoke about tourism's importance to job creation. The TD's research into the topic has helped the department revise its approach to marketing the state. The research reports can be found at www.nmtourism.org.

Mr. Orr presented a report on the economic impact of tourism and noted that visitor spending in 2014 totaled approximately $6.1 billion, and those visits generated nearly $8.6 billion in business sales. New Mexico ranks eighth among the states for private-sector tourism jobs.

In preparing its 2015 annual report, the TD examined awareness of New Mexico True advertisements in the five geographic markets targeted by the department. That examination revealed that the TD's advertisements are effective and that many people visited the state as a result of them. Mr. Orr said that the department's July 2015 study results show that for every dollar invested in advertisements, $72.00 was generated.

Overview of Roundtable Deliberations

Mr. Lautman reported that in 2014, the council identified a need for a metrics and accountability system to support the council's efforts. He referred to materials titled "Discussion Outline" and explained the day's roundtable deliberation plan.

Regarding the classes of metrics used to measure the effectiveness of a program, he said that return on investment and compliance with job-creation incentives are important analytics for a program. He asked participants to deliberate on any concerns with putting such a metrics and analytics program in place.

Mr. Lautman explained that the Governmental Accounting Standards Board (GASB) Statement Number 77, "Tax Abatement Disclosures", established standards for government audits. The standards will require local governments to describe the rationale for any tax abatements and to track metrics or other factors established in a contract that features tax abatements. A local government's failure to comply with the standards could impair its bond rating.

The participants deliberated on the following proposition: "Why we need a more rigorous, comprehensive and transparent accountability and planning system". Each group reported on its deliberations, indicating that, of the 10 reasons proposed in the discussion outline, the second reason, "Needed for GASB Rule 77 compliance", should be ranked highest in importance. Participants also reported that better data are needed to accurately measure economic-base job creation and the effectiveness of economic development incentives. Mr. Lautman clarified that compliance with GASB Statement Number 77 would require a corporation to ensure that it is making full use of the financial incentives it negotiates with a government.

The participants next deliberated on the question, "What are the potential negative consequences of more comprehensive and rigorous metrics, accountability and planning?". A member said that it would be helpful to see a ranking of every state tax incentive along with information on how much each incentive costs the state and the number of jobs created as a result of each tax incentive. With that information, the state could determine which incentives offer the least return to the state. Those incentives could be eliminated, and money dedicated to them could be reinvested into the more effective incentive programs.

Mr. Lautman said that incentives should be used to encourage job creation by businesses that would not create jobs without an incentive. Mr. Lautman suggested that economic-base job-creation data could be collected from employers when they file Combined Reporting System forms with the Taxation and Revenue Department. In addition to revealing whether programs targeted at economic-base job creation are effective, the state could learn whether certain businesses with non-economic-base employees could be converted to economic-base employers.

Regarding how agriculture jobs can be measured, Mr. Lautman said that almost all ranchers and farmers are economic-base employers because their products are consumed by people outside of the ranchers' and farmers' local areas.

Mr. Lautman acknowledged the possibility that employers would be hesitant to provide employee data, particularly if the data reporting process is cumbersome. For this reason, he said, the metrics system should be designed with input from affected businesses.

A participant said that a best-practices model for accountability standards can be found in Washington State's program.

Unemployment Insurance Benefits and Employer Costs

Celina C. Bussey, secretary of workforce solutions, presented an update as follows on the state's unemployment insurance system.

Secretary Bussey gave statistics on the number of people receiving unemployment insurance benefits and the number of experience-rated employers in the state. She said that the balance of the Unemployment Compensation Fund, as of October 20, 2015, was $216,324,844.05. The number of initial claims for benefits filed each week, at about 1,000, remains constant, even when the unemployment rate fluctuates.

The Unemployment Compensation Fund was the healthiest such fund in the country in January 2008, with a balance of over $550 million. During the recession, the fund balance was significantly reduced, but unlike other states, New Mexico did not borrow money to stabilize the fund.

Secretary Bussey said that 42.8% of claimants exhaust their total benefit eligibility. New Mexico's "exhaustion rate" is the twelfth highest in the country. Secretary Bussey explained an employer's taxable-wage base as it applies to unemployment insurance. The base is established by formula and has increased annually approximately $100 to $200 in recent years. For 2015, employers pay their unemployment insurance tax rate on the first $23,400 of each employee's earnings only. She provided examples of annual per employee amounts paid by employers with the minimum and maximum tax rates and said that employers with minimal or no interaction with the system pay lower rates.

Unemployment insurance tax is calculated using a rating system and a formula that is established in law. The benefit charges against an employer's unemployment insurance account for the previous three years affect the calculation. Because many employers' accounts were charged heavily in 2011 due to economic strain, those employers' tax rates were affected for several years. She explained that beginning with 2016, the 2011 benefits charges will no longer be used to calculate the 2016 tax rates.

Secretary Bussey also explained that tax rates are calculated using a "reserve factor" multiplier. The factor used in a given year is determined by law and is based on the health of the fund. Although some will experience an increase in 2016, several industries will see an overall decrease in their average tax rates. Secretary Bussey provided information about the change in tax rates between 2015 and 2016, categorized by industry type and employer size. She noted that unemployment insurance tax rates directly reflect the size of an employer's payroll, so a business's liability increases as the number in its work force increases.

Secretary Bussey said that her department held a stakeholders' meeting during 2015 to hear concerns about the program and to explain the reason an employer could see tax rate changes in 2016.

In response to a member's question about safeguards to keep the fund stable during any future economic downturns, Secretary Bussey said that the fund is currently healthy enough to withstand a downturn. The state previously chose to manage the struggling fund without federal assistance to avoid incurring debt to the federal government. She added that when the fund reaches approximately $400 million, it could support 18 to 24 months of benefits payments without any additional revenue.

When asked whether the department has considered reducing the reserve factor multiplier, Secretary Bussey responded that the use of a reserve factor of four was instituted in 2015 based on the actuarial principles provided in statute and rule. Use of those same principles will result in a decrease in the reserve factor in 2017, even though the fund's balance is not projected to reach $400 million by that time.

In response to a question about how the department communicates with employers, Secretary Bussey said that the Workforce Solutions Department has a communication plan that includes communicating insurance tax rate changes to employers.

In response to another question, Secretary Bussey said that the fund could reach $400 million within three to four years. She added that the solvency of the fund is the most important issue and that the department and the federal Department of Labor have confirmed that the actuarial principles are sound.

A member asked whether the state is attempting to increase the balance of the fund too quickly. Secretary Bussey responded that her department is obligated to implement the existing laws related to the fund and that it would implement any changes to those laws that slowed the accumulation of money in the fund.

Legislative Initiatives for Job Creation

Charles Lehman, program consultant to the council, referred participants to a chart titled "Council Approved". He said that it showed all of the initiatives that the council has approved and two proposals for additional funding: one for the JTIP and a second for WorkKeys assessments. He proposed that the council consider a third proposal: for the EDD's rapid work force development program based on the EDD's presentation earlier in the day.

A member reminded the council that it had also discussed the need for broadband access throughout the state. Mr. Lehman said that the proposal approved by the council includes an implementation program by which commercial, education and other needs are assessed and identified, with the ultimate goal of preparing regional broadband plans for every council of governments region. Mr. Lautman reiterated that the council decided to support a proposal to develop a plan to improve broadband infrastructure. A member suggested that local chambers of commerce be consulted in the plan development.

A member suggested that finalized legislation proposals be submitted to the council and to the Science, Technology and Telecommunications Committee for possible endorsement prior to the 2016 legislative session. Another member suggested that public-private partnerships might be a useful tool when broadband infrastructure is constructed. A member noted that if implementation of the broadband plan is not mandatory, it is possible that it will not be successful in every community.

The council approved without objection the three additional proposals described by Mr. Lehman. The council also approved without objection the council's pursuit of metrics development for job-creation initiatives.

Adjournment

There being no further business before the council, the fifth meeting of the Jobs Council for the 2015 interim adjourned at 4:52 p.m.